

Address
Mr Jabu Mabuza, Eskom Board Chairman
FY2018/19 Interim Results Announcement
28 November 2018

Group Chief Executive, Mr Phakamani
Hadebe

Members of the Eskom Board

Eskom executives and staff

Members of the media

Various stakeholders in our presence

Ladies and gentlemen

Good morning

Before we get to the business of the day, I want to take this opportunity to share with you our pleasure in announcing the finalisation of our executive recruitment process for the position of a Group CFO and to announce the appointment of Calib Cassim as our permanent GCFO. Whilst it has taken longer, we as the Board are pleased with the final outcome and look forward to working with Calib and his team to achieve our financial objectives. Mr. Cassim congratulations!

So today is a milestone, as Eskom releases its interim results on time and with a permanent CFO and core leadership team – one of many indicators that our cooperative efforts to inculcate a renewed culture of good governance and entrench financial and business discipline are bearing fruit.

As you may recall, the interim results for the last financial year were delayed and only released on 20 January – a few days before the 31 January deadline. At that time, Eskom had its back against the wall, having to raise R20 billion in 30 days after having had no access to funding since July 2017.

Ladies and gentlemen, while we pride ourselves on helping to bring electricity to 90% of South Africa, the past six months have been a difficult operational and financial period in Eskom's 95-year history, leaving the Board and I deeply concerned.

We have seen a steady decline in generation plant performance and coal stock levels that are threatening Eskom's ability to keep the

lights on. We have mandated management to double their efforts in implementing the recently-announced nine-point system recovery plan as a matter of urgency.

Of equal concern is the fact that the interim results under review show that most financial ratios deteriorated due to a number of factors, including above-inflation increases in primary energy costs, and are expected to worsen further towards financial year-end.

In addition, the arrear debt by municipalities continues to escalate. As at the end of September, invoiced municipal arrear debt (including interest) had increased to R17 billion, a 25% increase from R13,6 billion on 31 March 2018.

Eskom is in discussions with government through various formal structures in an endeavour to find a lasting solution to this national problem.

On a positive note, Eskom's liquidity has improved, and we have already secured 73% of funding for the 2018/19 financial year.

While notable strides in stabilising Eskom have been made so far, we will continue with the clean-up campaign that, since inception, has seen several executives and staff members implicated in serious allegations of misconduct fall by the wayside. Fourteen (14) executives have since left the institution.

Criminal proceedings have also been instituted, where relevant, and Eskom is

working with the law enforcement agencies to expedite the finalisation of these cases.

Irregular supplier contracts worth R2,3 billion were uncovered and have been reported to the relevant authorities. Lifestyle audits for executives and senior managers are also under way and should be concluded by the end of March 2019. This audit process includes validating declaration of interests against our vendor data base to ensure that none of our employees are doing business with Eskom. These have already revealed some irregularities which are being further investigated. Based on preliminary reports, we are confident that through this process and our collaboration with the SIU more will be achieved over the next 4 months.

Various investigations are also underway with additional disciplinary cases being undertaken as we uncover more acts of mismanagement and impropriety.

Ladies and Gentlemen we continue to pursue wrongdoing and take corrective action within the legal framework. I believe that our commitment to improve our governance practices has, in the medium term, resulted in a greater number of issues of irregularity and impropriety coming to light, but will, in the long term, set us up to achieve our renewal objectives.

As we work tirelessly to restore the credibility and integrity of this institution and following various credit rating downgrades in the past,

we note with encouragement the recent decision by Fitch Ratings to affirm Eskom's rating and remove the rating watch negative (RWN) that the ratings agency instituted in January this year.

We view this as an affirmation that we have made progress in improving the company's liquidity and resolving corporate governance challenges that have had a negative impact on the organisation.

Eskom also welcomes Moody's Investors Service's statement regarding Eskom's 15% tariff increase application currently being reviewed by the energy regulator, NERSA.

Ladies and gentlemen, as a Board, we are cognisant that, to be able to achieve longer-term business and financial sustainability, a significant improvement in financial and business discipline is required.

We have spent a considerable amount of time in a diagnostic phase where we sought to intimately understand our problems which we believe is critical in designing an effective long-term plan to turn our operations around and we believe that we now have a deep understanding of where we are and what is required to move forward.

Ladies and Gentlemen, Eskom is in a state of severe financial difficulty.

Our mid-year results confirm again what many of us have suspected for some time: Eskom, as it is conceived and operating today, is not sustainable.

We are locked into a permanent loss-making position in that our revenue growth is structurally constrained, our operating expenditure has ballooned due to internal inefficiencies and the debt load is impossibly high.

The company's operational and financial performance rapidly deteriorated in the first half of this financial year. In the last six months alone we saw significant EBITDA margin compression coupled with a further drop in our plant performance.

Taken all together and put simply: Without significant changes, we run the risk of less committed funding sources which will further increase our funding costs and potentially create going concern challenges in the medium term.

Put differently, we are not selling enough electricity and not at prices that recover our costs throughout the value chain. We are not collecting all that we have sold. But against this, we are spending more and having to borrow more at higher costs to repay what we previously borrowed and cannot afford to repay from our declining profits.

This is indeed an extremely perilous position which is a function of our own internal inefficiencies and exacerbated by external factors.

We therefore need to take bold steps as of today to save Eskom and return it to financial sustainability. In this regard, we have prepared a far-reaching, possibly ambitious but decisive new strategic turnaround plan to respond to this crisis and are in the process of engaging various stakeholders within government and labour to get alignment.

While we are engaging in that process, let me share broadly some elements of that plan:

Our plan essentially stands on three pillars:

- Cost compression;
- Revenue security; and
- Debt reduction (costs and debt load)

To achieve cost compression and cost containment we require transparency and accountability as a key catalyst. In order to effectively do this, we plan to complete a functional exercise of 'ring fencing' Eskom's various parts. This will enable us to clearly see who is carrying whom and who is being carried. This we believe is a critical enabler in defining and directing cost compression and efficiency measures effectively within the business.

This initiative will address the largest costs elements: Primary Energy, People and Debt. Through the ring fencing, further transparency will be added to our cost structure as follows:

- On Primary Energy we will expend significant efforts to grow the volume of our cost plus coal mines in addition to optimising the prices for short-term and medium-term coal that we procure through other channels.
- On People, we will embark on a number of initiatives, together with all the relevant stakeholders, to seek out efficiency and productivity gains in the organisation.
- On Debt, we will partner with government to reduce Eskom's debt load and consequently our debt costs.

The exact nature of these solutions is still being explored.

Lastly, the Long-Term Turnaround Plan will require cooperation with NERSA and Government to ensure that our tariffs are set at a level that ensures long-term viability and sustainability across the value chain.

We believe through these initiatives we should yield about R30bn savings over the next 5-years, albeit some of these are not entirely within our control.

I want to reiterate that our current situation is unsustainable; it also cannot be resolved overnight and requires a partnership approach between all stakeholders wherein difficult

choices need to be made with the aim to achieve sustained success. We therefore cannot overemphasise the importance of effective engagement and stakeholder alignment for any of our plans to succeed.

We have no doubt that the road ahead will be difficult, but we remain committed to making bold and difficult decisions that will see Eskom fulfil its commercial and developmental mandate and regain its reputation as South Africa's trusted and credible electricity supplier.

We are equally confident that Phakamani, Calib and Jan, with their teams, have the required capabilities to put the organisation back on the front foot.

We also recognise and appreciate the efforts of employees who work tirelessly for Eskom and the country.

As I conclude, I want to assure you that as a Board, we maintain that we cannot compromise on financial, business, and operational discipline as a foundation to restore Eskom's credibility and integrity. Restoring stakeholder and investor confidence is important to stabilise, reform, and achieve sustained success.

We are clear in our minds what our destination is – a profitable, transparent and agile organisation that is financially independent.

Thank you.